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Average farmland rental rates decline modestly for 2014

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Average farmland rental rates decline modestly for 2014

By William Edwards, retired extension economist

A new survey shows that a 15-year trend of rising cash rental rates for farmland in Iowa may have turned around. This is consistent with recent evidence of a leveling off or slight decrease in Iowa farmland values.

Survey shows declines in most districts

The survey was carried out by Iowa State University Extension and Outreach. For the state as a whole, reported rental rates for land planted to corn and soybeans were down from \$270 per acre last year to \$260 in 2014, or nearly 4%. This is very close to the change in Iowa farmland values over the past 12 months reported in surveys conducted by the Iowa Realtors Land Institute and summarized in ISU Ag Decision Maker file C2-75.

Iowans supplied nearly 1,700 responses about typical cash rental rates in their counties for land producing corn and soybeans, hay, oats and pasture. Of these, 50% came from farm

operators, 25% from landowners, 15% from agricultural lenders, 7% from professional farm managers, and 3% from other agricultural professionals. This is not to say that all cash rents were lowered for 2014. The intent of the survey was to report typical rents being paid for the current crop year, including those that may have been negotiated in prior years as well as those that were set more recently.

The Cash Rental Rates for Iowa 2014 Survey can be found on the ISU Ag Decision Maker website as file C2-10. It provides detailed results by county and crop. There was considerable variability across counties in year-to-year changes, as is typical of survey data, but 75% of them showed at least a small decrease in average rents for corn and soybeans. Grundy County showed the highest average rent, at \$330 per acre. The report also shows typical rents for alfalfa, grass hay, oats, pasture, corn stalk grazing and hunting rights in each county and district.

Rents reflect reduced crop revenues

Table 1 shows the average rent reported for land planted to corn and soybeans in each of the nine crop reporting districts in Iowa for last year and this year. West central

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Handbook updates

For those of you subscribing to the handbook, the following new updates are included.

Cash Rental Rates for Iowa 2014 Survey – C2-10 (12 pages)

Computing a Cropland Cash Rental Rate – C2-20 (4 pages)

Flexible Farm Lease Agreements – C2-21 (4 pages)

Income Tax Aspects of Property Transfers – C4-20 (2 pages)

Please add these files to your handbook and remove the out-of-date material.

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Iowa had the highest average rental rate. All districts showed a decrease except the southeast district, which showed no change. The largest decrease in average rents was recorded in the north central district. This region of the state suffered from a very wet spring last year, which reduced crop yields and prevented many acres from being planted. No doubt this tempered people's enthusiasm when rents were being negotiated for 2014.

All areas of the state faced significantly lower grain prices at harvest for the 2013 crop, as well as decreased forward pricing opportunities for the 2014 crop. This likely was the major factor impacting rents.

Table 2 shows state average yields for corn and soybeans since 2010, the average marketing year cash prices received nationally as reported by the National Agricultural Statistics Service (NASS), and the average multiple peril crop insurance payment received per planted acre. These were combined to estimate gross revenue per acre for each crop for each year.

In 2012 the state had a below average corn crop, but much of the loss in revenue was offset by higher market prices and crop insurance payments. In 2013 yields were about average for corn and below average for soybeans. However, selling prices for 2013 crops, as recorded through March of 2014, have been dramatically lower. Crop insurance payments have offset only a portion of this decline. Estimated gross revenue per acre is over \$200 less than was realized in 2011 and 2012 for corn, and about \$60 per acre less for soybeans, so it is not surprising that the trend for cash rents has reversed itself. Delays in the passage of a new farm bill by Congress may also have contributed to uncertainty about future income prospects for crop farmers.

Setting rents for next year

Survey information can serve as a reference point for negotiating an appropriate rental rate for next year. However, rents for individual farms should vary based on productivity, ease of farming, fertility, drainage, local price patterns, longevity of the lease and possible services performed by the tenant.

Table 1. Typical cash rental rates reported for land producing corn and soybeans, \$ per acre

Crop Reporting District	Average, 2013-\$	Average, 2014-\$	Change-\$	Change-%
Northwest	283	270	-13	-4.6%
North Central	294	270	-24	-8.2%
Northeast	281	277	-4	-1.4%
West Central	294	288	-6	-2.0%
Central	297	284	-13	-4.4%
East Central	284	273	-11	-3.9%
Southwest	257	249	-8	-3.1%
South Central	210	202	-8	-3.8%
South East	229	229	0	0.0%
Statewide	270	260	-10	-3.7%

Table 2. Yields, prices, crop insurance payment and gross revenue per acre

Crop Year	Corn				Soybeans			
	Yield ^{1/}	Price ^{2/}	Crop Ins. ^{3/}	Gross Revenue	Yield ^{1/}	Price ^{2/}	Crop Ins. ^{3/}	Gross Revenue
2010	165	\$5.18	\$21	\$876	51.0	\$11.30	\$7	\$583
2011	172	\$6.22	\$13	\$1,083	51.5	\$12.50	\$12	\$656
2012	137	\$7.20	\$122	\$1,108	44.5	\$14.30	\$29	\$665
2013	165	\$4.55	\$119	\$870	44.5	\$12.89	\$26	\$600

^{1/} State average yield for Iowa (USDA)

^{2/} Average marketing year price for the US (USDA)

^{3/} Multiple Peril Crop Insurance indemnity payment per planted acre

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Average farmland rental rates decline modestly for 2014, continued from page 2

Other resources available for estimating a fair cash rent include the Ag Decision Maker information files Computing a Cropland Cash Rental Rate (C2-20), Computing a Pasture Rental Rate (C2-23) and Flexible Farm Lease Agreements (C2-21). All of these fact sheets include decision files (electronic spreadsheets) to help analyze individual leasing situations.

For questions regarding the cash rent survey, or leasing questions in general, contact a farm management field specialist, www.extension.iastate.edu/ag/farm-management-0.



Corn revenue, costs and returns trends and implications for the future

By Don Hofstrand, retired extension value-added agriculture specialist

Two forces have been working to change the grain price environment of the last few years. The rapid expansion in corn starch ethanol production is slowing substantially due to market saturation. Also, crop production yields are expected to shift from drought to more favorable growing conditions, thus increasing grain supplies. While the exact trend of these variables is uncertain, many analysts expect agriculture to move from the recent historically high grain prices to a considerably lower level. If that materializes, farmers and land owners will face significant adjustments. This article outlines some of the historical and possible future farm-level impacts from changes in grain prices and yields.

The analysis below shows the revenue, costs and net returns for a hypothetical Iowa corn farmer. Similar results for an Iowa soybean farmer can be found on Ag Decision Maker. It has been tracked monthly since the year 2000. The selling price used in the analysis is the monthly average price received by Iowa farmers over this time period. The annual yields reflect the Iowa average yields as reported by NASS. The annual cost figures are assumed to be typical of an Iowa farmer ^{1/}.

Monthly corn income is shown in Figure 1 on both a per acre and per bushel basis. Income consists primarily of corn selling price with a small addition in the form of U.S. government payments.

Income was relatively low from the 2000 to the 2006 corn marketing year but shot up to over \$5.00 per bushel in 2007 before retreating below \$4.00 per bushel in the 2008 corn marketing year. From there it advanced to almost \$8.00 per bushel in August of 2012 before retreating once again to the current range of \$4.00. The income pattern for soybeans is similar to corn except the recent price retreat has not been as severe as it has with corn.

Figure 1 shows the volatility that has occurred in recent years in grain prices and income. It shows the ability of these commodity market prices to turn on a dime due to changing market conditions and head in a different direction.

Corn production costs over this time period are shown in Figure 2. The figure on the left reflects a corn farmer who owns all cropland farmed. The figure on the right reflects a farmer who rents cropland

Figure 1. Corn Income per Acre and per Bushel (2000 to present)

